

WHAT IS GREEN ACCOUNTING?



Sai Sindhuja Chopparapu, MBA student, Accounting Major, Marc B Lewis, D.B.A.

Ernest C. Trefz School of Business

University of Bridgeport, Bridgeport, CT.

GREEN ACCOUNTING

Green accounting is one of the crucial areas in today’s corporate social responsibility. Companies are incorporating the concept of environmental element in their business operations. Green accounting will help the organizations to identify the resource utilization and the incurred cost. This method records cost and benefits rendered by the ecosystem to a business concern.

Environmental or “green” accounting is an expanding field focused on factors like resource management and environmental impact, in addition to a company’s revenue and expenses. Climate change will affect the quality of life on earth as well as economic factors. According to the Climate Vulnerability Monitor report, the U.S. could lose 2% of its gross domestic product as a result of droughts and water shortages by 2030.

Environmental accounting segregates and identifies those parts of the gross domestic product that reflects the costs necessary to compensate for the negative impacts of economic growth. It also asses the changes in environmental quality, resulting from pollution and other impacts of production, consumption and natural events, on the one hand, and environmental protection, on the other.

BENEFITS

- Green Accounting is meant to be used for both internal and external users.
- Green Accounting provides useful information regarding decision making for level and structure of production, value of investment and environmental costs.
- It identifies and analyzes the environmental costs and an afferent debt identifies and manages there ratio between the environmental expenses and its afferent debt.
- It identifies collects and analysis data about raw materials energy and other information's about environmental impact of the business that will lead to more informed decision making with consequent implications for improved profitability and environmental protection.
- It contributes to a better management of energy and water costs.

LIMITATIONS

Valuation techniques for environmental goods and services are imperfect and shadow prices are only partial valuations. This applies to both deductive and interrogative techniques.

Social values for environmental goods and services are uncertain and change very rapidly.

Non-economic values are also important in political processes.

Aggregation of individual preferences may not yield a meaningful net social preference.

Economic values are marginal and incremental, not absolute and total

Reliable industry data are not readily available.

Assumptions underlying standard economic theory and analytical models are often not met.

WAVES

The World Bank has launched a 5-year global partnership on Wealth Accounting and Valuation of Ecosystem Services (WAVES), a program to implement green accounting in a critical mass of countries, both developed and developing.

WAVES promotes sustainable development worldwide through the implementation of comprehensive wealth accounting that focuses on the value of natural capital and integration of “green accounting” in more conventional development planning analysis.

Objectives of WAVES-

- Implement natural capital accounting based on the UN’s System of Environmental and Economic Accounting (SEEA) in 6-10 countries.
- Incorporate the accounts into policy analysis and development planning.
- Develop internationally accepted and standardized guidelines for the implementation of ecosystem accounting.
- Promote widespread adoption of natural capital accounting beyond the pilot countries through a broad

WAVES provides a broad platform including the United Nations Environment Program (UNEP),

United Nations Development Program (UNDP), other UN agencies, developed and developing

nations, international organizations, NGOs and academics.

Partner countries currently include:

- Developing country partners: Botswana, Colombia, Costa Rica, Madagascar, and the Philippines.
- Developed country partners: Australia, Canada, Japan, Norway, and the United Kingdom.

EXAMPLE CASES

Canada’s Forest Carbon Accounting System

Canada developed a monitoring, accounting, and reporting system that integrates several data sources including forest inventories; forest growth and yield information; statistics on change agents such as wildfire, insect disturbances, and forest management activities; and land-use changes (afforestation and deforestation). the model relies upon several provincial and federal government data sources and the annual reporting of greenhouse gas emissions and removals submitted for Canada’s national greenhouse gas inventory report. This data are used in the carbon budget model of the Canadian forest sector to create a national carbon account that estimates carbon stocks, stock changes and non-CO2 emissions and removals to meet international reporting requirements. The data are also used in support of government policy to predict future changes in carbon stocks under differing scenarios, which enables forest managers to consider the effect of proposed alternatives on carbon emissions when making management decisions.

Australia’s Water Accounts

Droughts are common in Australia, and any change in the abundance, distribution, or availabilityof water will be extremely challenging for the country to mitigate. , Australia has used its water accounts to understand the impact of and responses to water shortages due to climate change. Water accounts can be used to devise water pricing and trading strategies that encourage more efficient water use and ensure that water is allocated where it adds the most value. the Australian government recommended that water distributedto urban users should be priced to recover all costs associated with its capture, storage, treatment, and distribution, while water distributed to rural and regional users should be priced to cover only the current costs associated with supplying water.